Welfare Reform Legislation Poses Opportunities and Challenges for Rural America

Welfare reform legislation enacted in 1996 devolves responsibility for providing assistance to needy families and children from Federal to State governments through Federal block grants. It shifts the fundamental intent of public welfare away from providing cash assistance to moving families from welfare to work. The new legislation may foster more productive communities as families leave welfare for work. It also presents some rural States and communities with formidable challenges.

The Personal Responsibility and Work Opportunity Reconciliation Act (PL104-193), signed into law in August 1996, dramatically overhauls the national system of public welfare in operation since the 1930's. Enactment of the new law follows years of national debate and many past welfare reform efforts; recent actions, according to the Institute for Research on Poverty, include 6 major House bills, 11 major Senate bills, 13 minor bills, 2 Presidential vetoes, and 43 State waivers.

With welfare reform, responsibility for providing assistance to needy families and children devolves from Federal to State governments through a system of individually tailored State programs funded by Federal block grants. At the same time, the new law shifts the fundamental intent of public aid away from providing cash assistance to helping families transition from welfare to work. How different States and local communities respond to the challenges and opportunities presented by the welfare reform law depends on many factors, including past programmatic experiences, the characteristics of their low-income populations, and prevailing economic conditions in the State and Nation. For example, States dominated by rural areas and large rural populations or communities face different challenges than States dominated by large urban centers.

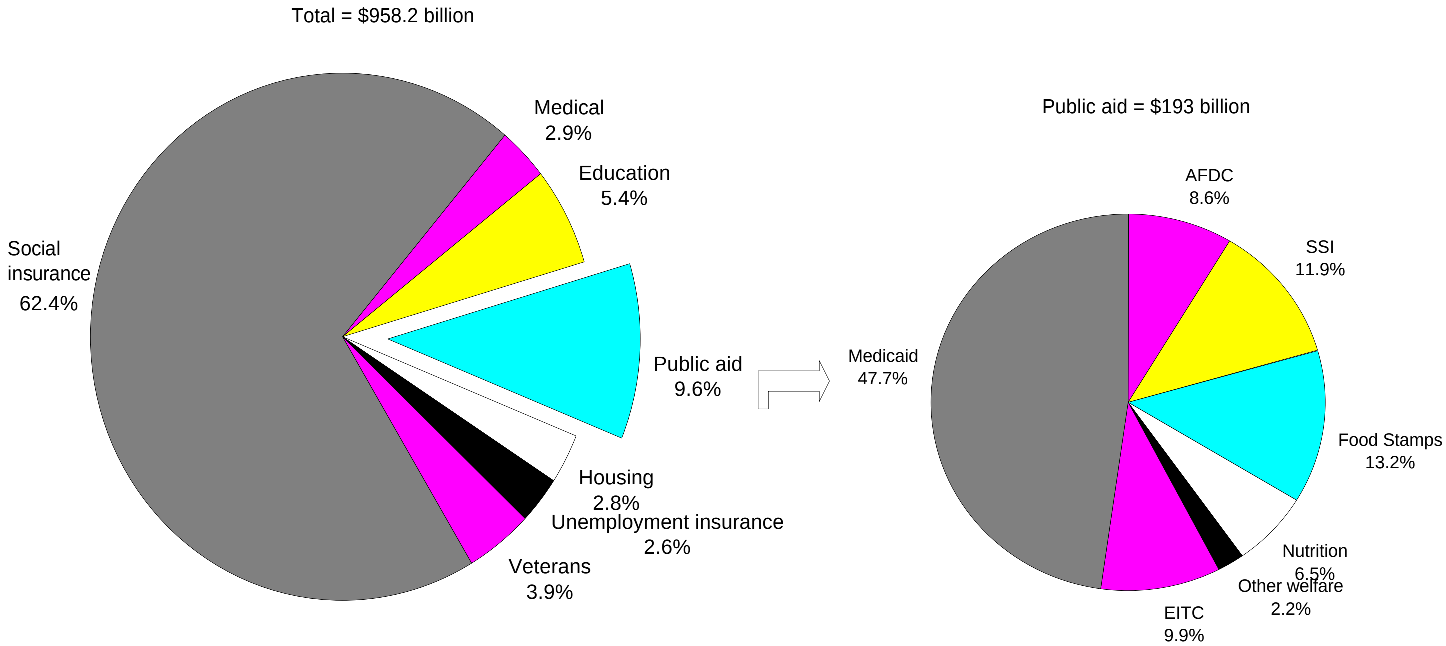
Provisions Affect Several Low-Income Programs

PL104-193 makes important changes in several major low-income programs and lesser changes in other programs. Programs affected most by the law accounted for over $190 billion of Federal outlays in 1996—about one-tenth of Federal welfare expenditures (fig. 1).

One of the most important of the act's many complex provisions replaces the 61-year-old Federal welfare program, Aid to Families with Dependent Children (AFDC), with Temporary Assistance for Needy Families (TANF), a system of State-controlled low-income assistance programs funded by Federal block grants capped at mid-1994 funding levels through 2002 (see box). While giving States considerable flexibility and autonomy for designing and operating their own State plans, TANF provisions limit the total lifetime maximum for receiving Federal welfare benefits to 60 months, with hardship exemptions, and specify parental work requirements. State plans must indicate how States intend to meet the requirement that able-bodied parents must engage in work activities after receiving benefits for a maximum of 24 months. To avoid reductions in their Federal block grants, States must act to increase the percentage of their family caseloads participating in approved work activities from minimum rates of 25 percent for all families and 75 percent for two-parent families in 1997, rising to 50 percent (all families) and 90 percent (two-parent families) by 2002. Other provisions provide additional funds for child care and health insurance and call for State actions to reduce teen and out-of-wedlock births.

The act also substantially reforms other low-income programs. Provisions tightening eligibility criteria for the Supplemental Security Income (SSI) disability program restrict many formerly eligible children under age 18 from receiving benefits. Provisions affecting the Food Stamp Program limit benefits for childless able-bodied adults unless they are working. Other changes altering the criteria for determining Food Stamp benefits will result in an overall reduction in benefits in the future. Provisions involving aliens restrict most legal aliens (with a few special exceptions) from receiving SSI and Food Stamp benefits until they have either worked for 10 years or become citizens. States have the option whether or not to provide TANF and Medicaid benefits to legal aliens already in the country. New legal aliens are ineligible for TANF and Medicaid Federal benefits until they have been in the country for 5 years, although States may use State funds to provide such benefits. Additional provisions pertain to child nutrition programs, Medicaid, foster care, social sup-

Figure 1
Federal spending for social welfare programs, 1996
Programs mainly affected by PL104-193 accounted for about one-tenth of Federal social welfare spending



Source: Calculated by ERS using data from the Budget of the United States Government, fiscal year 1998.

port services, earned income tax credit (EITC), and Social Security benefits for prison inmates.

Beginning in 1997, States must maintain State spending levels for TANF benefits and administration, emergency assistance, JOBS, and selected child care programs at 80 percent of their 1994 levels or risk dollar-for-dollar shortfall reductions in the following year. States with high unemployment rates and/or large increases in Food Stamp caseloads may qualify for supplemental payments worth up to 20 percent of their block grant allocations. Beginning in 1998, more modest Federal supplements will be available to qualifying States with rapid population growth and a history of low AFDC spending levels, States with high-performing TANF programs, and the top five States with the largest declines in out-of-wedlock births.

SSI and Food Assistance Programs Account for More Than 80 Percent of Federal Public Welfare Spending Reductions

Estimated budgetary impacts of the new law on Federal public welfare spending indicate a decline of about $54 billion over the 6-year period, 1997-2002 (table 1). Because the core Federal funding for TANF is a sum fixed at mid-1994 funding levels through fiscal year 2002 (about $16.5 billion annually), projected overall Federal savings realized from the new cash assistance programs are negligible. According to a recently released report by the Urban Institute, annual projected spending on non-Medicaid public welfare between 1998 and 2002 amounts to less than 2 percent of Gross Domestic Product (GDP). New child-care block grants, coupled with additional spending for child support enforcement, total $13.2 billion, a $3.9-billion increase over the amount that would have been spent under the old law. The bulk (over 80 percent) of the spending reductions derives from reductions in SSI ($22.7 billion) and Food Stamp programs ($23.3 billion). Of these reductions, restrictions involving alien benefits make up $13.2 billion and $3.7 billion of SSI and Food Stamps savings, respectively, plus an additional $4.1-billion savings in projected Medicaid benefits.

Key Provisions: The Personal Responsibility and Work Opportunity Reconciliation Act

Establishes Temporary Assistance for Needy Families (TANF) that:

—Replaces former entitlement programs with Federal block grants

—Devolves authority and responsibility for welfare programs from Federal to State government

—Emphasizes moving from welfare to work through time limits and work requirements

Changes eligibility standards for Supplemental Security Income (SSI) child disability benefits

—Restricts certain formerly eligible children from receiving benefits

—Changes eligibility rules for new applicants and eligibility redetermination

Requires States to enforce a strong child support program for collection of child support payments

Restricts aliens' eligibility for welfare and other public benefits

—Denies illegal aliens most public benefits, except emergency medical services

—Restricts most legal aliens from receiving Food Stamps and SSI benefits until they become citizens or work for at least 10 years

—Allows States the option of providing Federal cash assistance to legal aliens already in the country

—Restricts most new legal aliens from receiving Federal cash assistance for 5 years

—Allows States the option of using State funds to provide cash assistance to non-qualifying aliens

Provides resources for foster care data systems and national child welfare study

Establishes a block grant to States to provide child care for working parents

Alters eligibility criteria and benefits for child nutrition programs

—Modifies reimbursement rates

—Makes families (including aliens) that are eligible for free public education also eligible for school meal benefits

Tightens national standards for Food Stamps and Commodity Distribution

—Institutes an across-the-board reduction in benefits

—Caps standard deduction at fiscal year 1995 level

—Limits receipt of benefits to 3 months in every 3 years by childless able-bodied adults age 18-50 unless working or in training

It is too soon to tell how much of the projected Federal savings will actually materialize. As of this writing, media sources report that 40 States have requested or received 1-year exemptions from the provision scheduled to begin this spring that cuts off Food Stamp benefits to unemployed able-bodied childless adults who live in high-unemployment areas. If many such exemptions are granted, the projected savings from the Food Stamp program will be less than estimated.

Recent Drops in Caseloads Create Favorable Funding Picture in Some States

The immediate goal facing all States is the development and submission of a State TANF plan for certification from the Department of Health and Human Services by no later than July 1, 1997. Certification triggers the release of Federal funds under the new block grant program. Until then, States will continue to operate under the old AFDC funding rules. As of February 24, 1997, 41 States had submitted TANF proposals, of which 38 had been certified by HHS and 3 were pending certification.

The number of States that have already submitted plans clearly suggests that many States and communities are hopeful that welfare reform, along with a possible increase in funds, will help speed up the transition from welfare to work and result in more productive communities with rising tax bases, better public services, and industrial growth. While this may prove to be the case in traditionally high welfare-benefit States, where the welfare population is distributed among communities with stable economies, strong local tax bases, and well-developed social service delivery systems, it may prove to be less true for many predominantly rural States and rural areas in other States.

According to HHS, estimated block grants for fiscal year 1997 will vary from $3.7 billion in California to $21.8 million in Wyoming. Under the previous AFDC law, a State's Federal funds were determined by a matching formula based on State spending. State funds were matched 50 cents on the dollar for more affluent States, while less affluent States received an even higher match. Under TANF, Federal block grants to States are tied to the Federal share of State funding levels in either 1994, 1995, or the 1992-94 average (whichever is higher). Furthermore, States choosing to divert State funds toward benefits to groups not covered by the law, such as nonqualifying aliens, will receive no additional Federal funds.

Table 1

Estimated Federal budget effects of PL 104-193, 1997-2002

Food Stamp Program and SSI account for over 80 percent of savings over 6 years

Program	Pre-law projected spending	Post-law projected spending	Change	Percent change
	Billion dollars			Percent
Family support	112.5	112.4	-0.1	-0.1
Child care	9.3	13.2	+3.9	+41.9
Food Stamps	190.5	167.2	-23.3[1]	-12.2
SSI	203.5	180.8	-22.7[1]	-11.2
Medicaid	803.0	798.9	-4.1[1]	-.5
Child nutrition[2]	61.9	59.0	-2.9	-4.7
OASDI	2,484.4	2,484.3	-.1	-0.0
Other[3]	182.6	177.7	-4.9	-2.7
Total	4,047.7	3,993.5	-54.2	-1.3

[1]Includes $23.7 billion of projected savings from restricting benefits to aliens.
[2]Child nutrition includes programs authorized under National School Lunch and Child Nutrition Acts.
[3]Other includes social services, foster care, maternal and child care, and Earned Income Tax Credit.
Source: Compiled by ERS from Congressional Budget Office report to OMB, August 9, 1996.

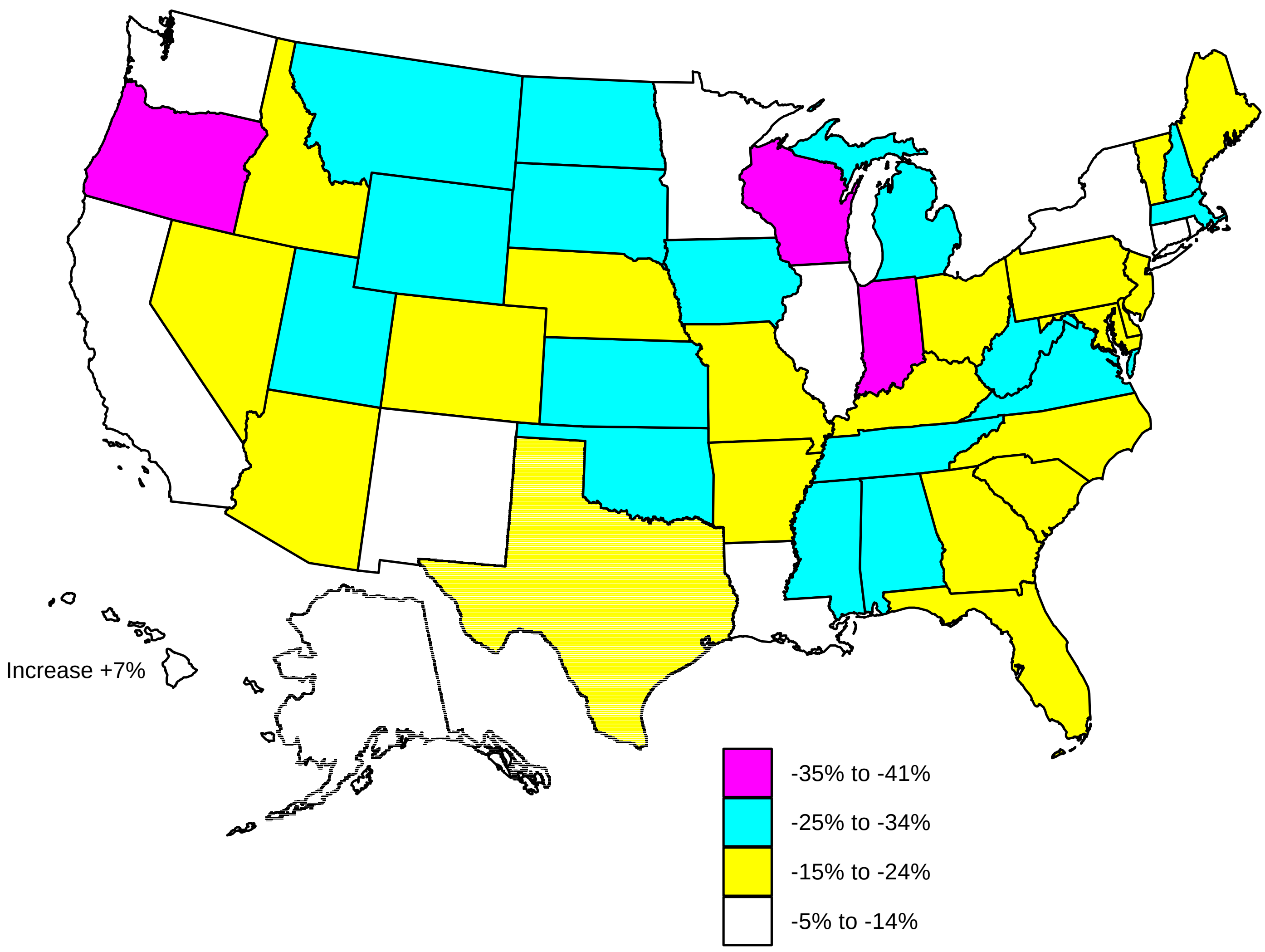
The upside for States is that recipient caseloads have undergone a substantial decline in the last 3 years, partly influenced by the operation of State waiver demonstration projects in many States and a strong national economy. Since 1994, national welfare rolls have dropped by 3 million people. All States, except Hawaii, experienced at least a 5-percent drop in welfare recipients from 1994 to 1996, and 20 States realized a 25- to 41-percent decline (fig. 2). Thus, former high-benefit States, including some with well-developed waiver demonstrations already in place, will reap large windfalls because they have to cover fewer recipients with their block grants. These gains, coupled with a potential 25-percent savings on State funds, give States the option of using the surplus resources to fund other programs or to provide tax relief.

The downside to block grants is that some traditionally low-benefit States with disproportionately large rural and/or minority populations and historically high poverty rates will

Figure 2

Change in AFDC recipiency by State, 1994-96

Number of recipients declined by at least 5 percent in every State but Hawaii



Source: Prepared by ERS using data from the Department of Health and Human Services.

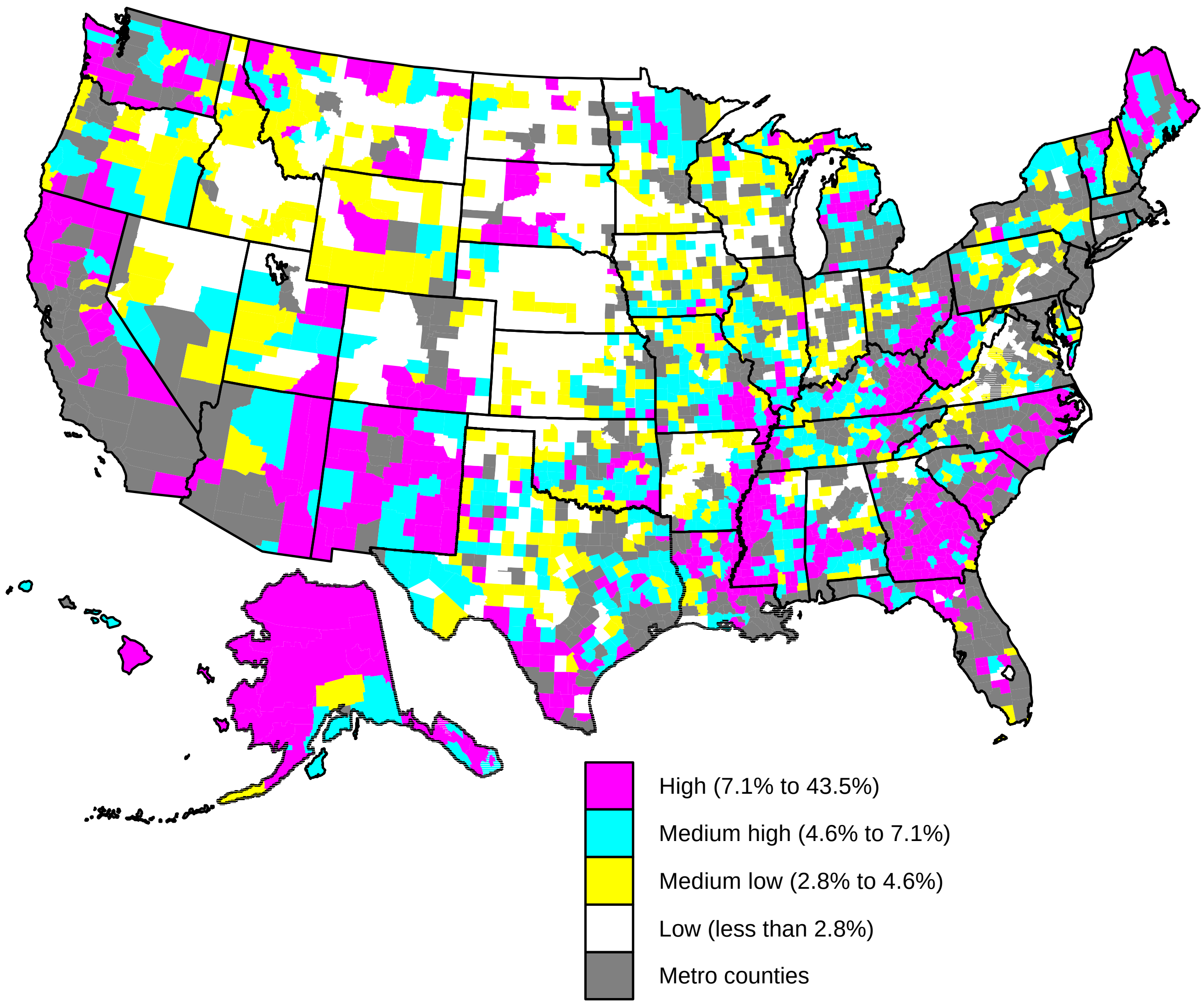
receive fewer Federal dollars than other States to deal with unusually high welfare dependency rates. As of 1993, 18 mostly Southern States paying average monthly benefits of less than $300 per family accounted for 50 percent of the rural population and 60 percent of the rural poor. Fortunately, some of these States may qualify eventually for supplemental funds under the new law.

Rural counties with high rates of family welfare dependency often have high concentrations of minorities (Native Americans, Hispanics, African Americans) and/or historically high-poverty populations (fig. 3). These counties are disproportionately located in Southern States, including the Carolinas, Georgia, the northern Florida panhandle, parts of Alabama, Mississippi, Louisiana, and Arkansas, much of Appalachia, and areas of the

Figure 3

Family dependency on AFDC for rural counties, 1994*

Three out of every five high welfare-dependency counties are persistent-poverty counties



* Percent of families receiving AFDC benefits.
Source: Estimated by ERS using data from 1990 Census, Bureau of Economic Analysis, and Social Security Administration.

Missouri Ozarks as well as in the Southwest, Northwest, the Dakotas, New England and the Great Lakes region. Of the 775 counties classified as high dependency in 1994, 586 are nonmetro (rural) counties. Nearly 60 percent of these rural high-dependency counties have had poverty rates in excess of 20 percent spanning several decades, and 56 percent are remote counties located away from urban centers.

Rural Leaders Face Unique Challenges in Moving Families From Welfare to Work

A review of State plans for 16 predominantly rural States indicates that several will require welfare parents to enter the labor market sooner than required by Federal guidelines (see box). In a few States, parents will be required to work in community service jobs after 2 months of receiving benefits. Yet, rural county jurisdictions within these States have disproportionately high rates of welfare dependency, poverty, and unemployment, and are remotely located from urban centers (table 2).

Rural State and local leaders face many challenges in implementing State TANF plans that will effectively move families from welfare to work in their States. These challenges (elaborated below) include (1) creating enough new full-time jobs in the local labor market to absorb new unemployed and involuntary part-time welfare entrants without displacing nonwelfare workers; (2) providing job training and education that rural welfare parents need to obtain and retain jobs; (3) helping welfare families find jobs that provide a livable income; and (4) providing transportation to jobs in places that lack public transportation and sufficient access to safe and affordable child care.

Finding available jobs for increasing proportions of a State's welfare parents in the next few years without displacing nonwelfare workers may be the greatest challenge that rural States face, because of the limited capacity of rural labor markets to absorb large numbers of new workers into entry-level jobs commensurate with the education and work experience of many welfare parents. This is especially true for rural communities with high welfare dependency, and unemployment and poverty rates. In 1994, 60 percent of the 586 rural counties that were classified as highly welfare-dependent were also high-unemployment counties (fig. 4). Many of these same highly welfare-dependent counties have had poverty rates in excess of 20 percent over several decades. Thus, welfare job seekers will often have to compete with unemployed workers not on welfare for available jobs. However, some rural States with unusually high unemployment rates may apply for supplemental funds up to 20 percent of their annual block grants. Furthermore, some States providing cash subsidies to employers who hire welfare recipients have built safe-

State Plans Have Been Submitted by 16 of 22 Predominantly Rural States

To date, TANF State plans have been submitted and certified for 16 of 22 predominantly rural States. These States either have large rural populations and/or have a considerable share of county jurisdictions that are classified as rural nonadjacent (see table 2 for list and definition). Proposals have not been submitted by the remaining six States. The estimated amounts of Federal TANF block grants for fiscal year 1997 vary from $775.4 million in Michigan to $21.8 million in Wyoming. This translates to annual amounts per 1994 family ranging from a high of $5,000 in Alaska to a low of $1,559 in Mississippi (table 2).

Eleven of the 16 State plans indicate that they will continue to work under waiver demonstration projects already in effect, and 2 will require welfare parents to work in community service activities after 2 months of receiving benefits. All but one of the States will offer eligible interstate migrants the same benefits as instate recipients. Three States will use State funds to provide benefits for nonqualifying aliens. The maximum lifetime limits for receiving cash assistance fall below the Federal guideline of 60 months in seven States; three of these will provide benefits for only 24 months out of every 60 months. Five States have set work requirements more stringent than the Federal guidelines. Only two States plan to implement TANF uniformly across all jurisdictions.

Table 2

Selected characteristics of predominantly rural States[1]

All but three States have more than one-half of their counties located in remote areas

State	AFDC monthly benefit, 1993[2]	Estimated 1997 block grant in millions	Annual 1994 family benefit, 1997	Rural counties: Mean welfare dependency rate, 1994	Rural counties: Mean unemployment rate, 1994	Rural counties: Persistent poverty, 1990[3]	Rural counties: Nonadjacent counties, 1994
	--------------------Dollars--------------------			---------------------------Percent---------------------------			
Alaska	High	63.6	5,000	12.91	9.51	23.0	91.7
Arkansas	Low	56.7	2,205	4.38	6.36	48.4	54.7
Idaho	Medium	31.9	3,635	2.76	6.65	2.4	79.5
Iowa*	Medium	130.1	3,292	3.85	4.00	0.0	54.5
Kansas*	Medium	101.9	3,418	2.87	4.44	0.0	73.3
Kentucky*	Low	181.3	2,291	8.96	6.84	55.1	52.5
Maine*	High	78.1	3,447	6.66	8.37	0.0	31.3
Michigan*	High	775.4	3,525	5.93	9.18	1.7	50.6
Minnesota	High	266.4	4,323	3.61	5.70	2.9	50.6
Mississippi*	Low	86.8	1,559	9.31	8.29	82.7	68.3
Missouri*	Low	214.6	2,329	5.91	6.03	30.0	51.3
Montana*	Medium	45.5	3,840	4.27	5.10	5.6	78.6
Nebraska*	Medium	58.0	3,704	1.70	2.84	2.3	80.6
New Hampshire*	High	38.5	3,359	3.86	4.17	0.0	30.0
New Mexico	Medium	126.1	3,696	8.94	8.47	48.2	57.6
North Carolina*	Low	302.2	2,314	7.80	6.26	29.2	26.0
North Dakota	Medium	25.9	4,551	2.65	4.29	14.3	71.7
Oregon*	Medium	167.9	4,036	4.35	7.45	0.0	52.8
South Dakota*	Low	21.9	3,223	4.71	4.39	27.0	83.3
Vermont*	High	47.4	4,799	6.69	5.53	0.0	50.0
West Virginia*	Low	110.2	2,728	8.51	11.34	25.6	52.7
Wyoming*	Medium	21.8	3,855	3.54	5.15	0.0	87.0
U.S. total	----------	16,389.0	3,256	5.62	6.54	23.5	56.8

[1]Predominantly rural States have less than 45 percent of 1995 population residing in urban portions of metro areas and/or other States (nonurban) with at least one-half of counties classified as nonmetro nonadjacent counties (see appendix A). States indicated with an * have TANF State Plans certified as of February 24, 1997.

[2]Low-benefit States have benefits less than $300, medium-benefit States have benefits between $300 and $400, and high-benefit States have benefits over $400.

[3]See appendix A.

Sources: Calculated by ERS using data from the Bureau of Economic Analysis, Bureau of the Census, Bureau of Labor Statistics, Social Security Administration, and Department of Health and Human Services.

guards in their State plans to ensure that welfare workers will not displace workers already on the job.

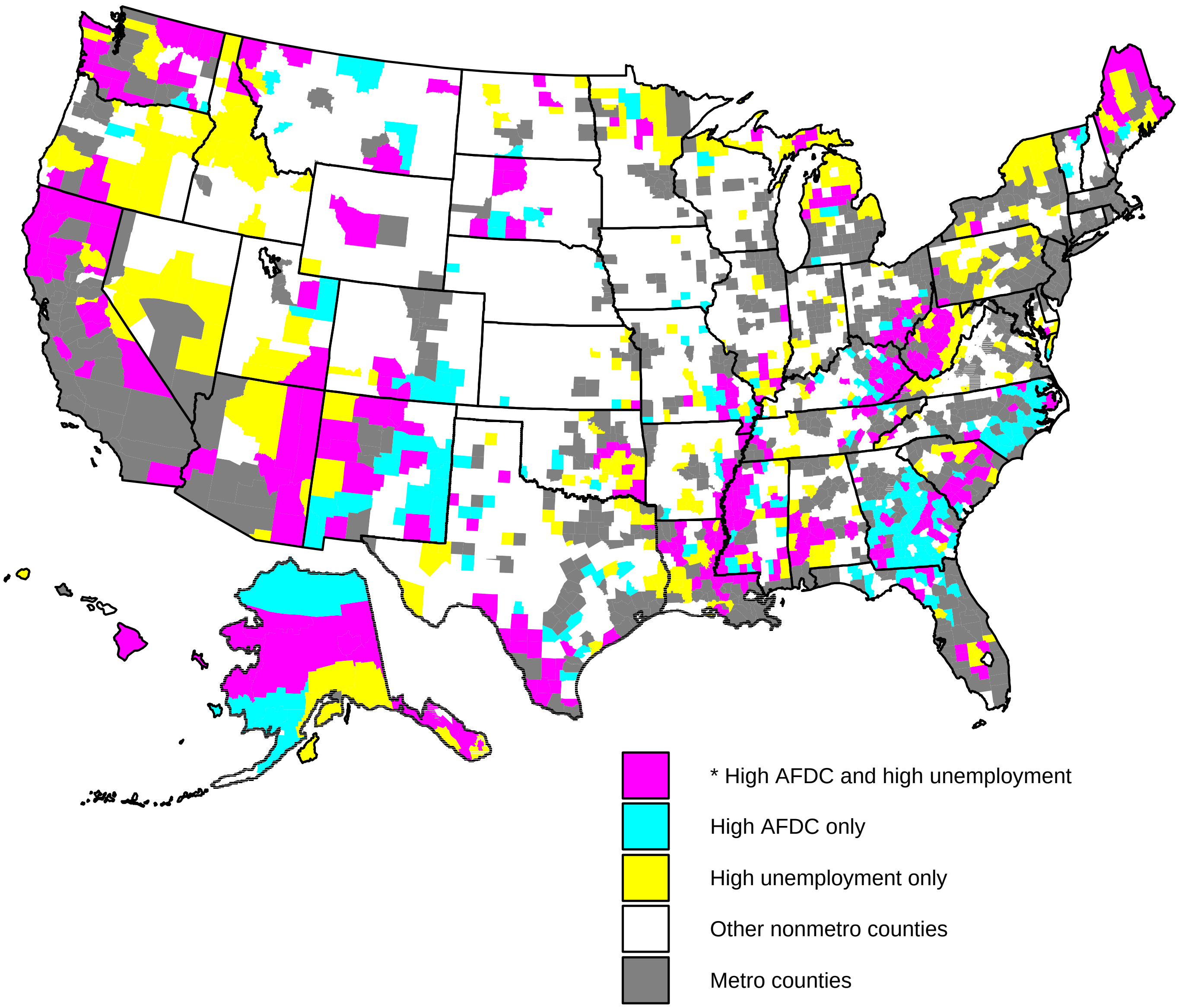
Even if rural States find innovative ways to create more jobs, these jobs may not be accessible to many welfare parents with low education levels and little work experience without remedial education and training. In 1996, 35 percent of rural welfare parents lacked a high school education. Furthermore, preparing many welfare parents to enter and remain in the work world requires developing the appropriate life skills and workplace habits needed to sustain employment. Such training is expensive and time-consuming, and may not be available in many rural communities. Most welfare recipients face another hurdle. Well over 80 percent of welfare parents are single mothers who will have to cope simultaneously with the demands of being a parent and a breadwinner.

The gains of promoting work among welfare recipients will be best realized if work lifts families out of poverty. Declining real wages over the past 15 years have left many rural families poor or nearly poor. In 1995, nearly 60 percent of rural poor families had either a

Figure 4

Overlap of rural counties by AFDC dependency and unemployment rates, 1994

Over 60 percent of high welfare-dependent counties have high unemployment rates



* High equals top 25 percent of U.S. counties.
Source: Estimated by ERS using data from 1990 Census, Bureau of Labor Statistics, Bureau of Economic Analysis, and Social Security Administration.

head or spouse that worked some during the year, and 24 percent of rural poor families had either a head or spouse that worked full-time year-round. Although the metro/nonmetro poverty gap has narrowed greatly in recent years, 39 percent of rural families had near-poverty incomes (under 200 percent of the poverty line) in 1995, compared with 29 percent of urban families. The end goal of achieving self-sufficiency requires helping welfare parents find and retain jobs that pay decent wages as well as increasing the share of children who live in two-parent worker families.

Community leaders must also find ways to overcome the lack of public transportation from home to work in most rural communities. Public transportation is important because rural welfare families do not generally own cars and often live in remote locations far from work opportunities. (Some States have prohibited welfare recipients from owning cars in the past.)

Another major rural concern is helping parents gain access to adequate child care. Almost two-thirds of rural welfare families had at least one child under age 6 in 1996. Yet, the availability of day-care centers in many small rural communities is limited, or nonexistent, causing welfare parents to rely on families, friends, and neighbors for child care.

A final challenge for all States is to incorporate ways to address the unique needs of rural areas and rural people (especially in very remote locations) into their State plans. If State plans do not reflect rural concerns, there is a real chance that rural areas will be overlooked, especially in States that do not intend to implement all aspects of welfare reform uniformly across jurisdictions. *[Peggy J. Cook, 202-219-0095, pross@econ.ag.gov, and Elizabeth M. Dagata, 202-219-0536, edagata@econ.ag.gov]*